

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 EURE-00 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-04 CEA-01 DODE-00 /087 W
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P R 011658Z APR 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 7097

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION USBERLIN

USMISSION NATO BRUSSELS

USNMR SHAPE

AMCONSUL FRANKFURT

AMCONSUL MUNICH

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL HAMBURG

AMCONSUL STUTTGART

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 05832

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS, ECON, EFIN, GW

SUBJECT: COMMENTS ON ECONOMIC GROWTH OUTLOOK: REVISIONS

ALL AROUND -- SOME DOWN, SOME UP; BEARISH VIEWS

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GAINING GROUND; CHANCELLOR CONFIDENT ON
OUTLOOK

REF: BONN 5052

1. SUMMARY -- THERE SEEMS TO BE A DOWNWARD TREND IN
THE ECONOMIC GROWTH ESTIMATES OF THOSE WHO EARLIER WERE

AT THE HIGH END OF THE RANGE OF POSSIBILITIES, WHILE THE LOW-END OECD FORECAST MAY BE NUDGED SLIGHTLY UPWARD. IT IS NO LONGER HERESY TO SPEAK OF UNDER 5 PERCENT REAL GNP GROWTH IN 1977, WITH 4 PERCENT OR SO BEING SUGGESTED AS WHAT THE ECONOMIC INSTITUTES ARE CURRENTLY CONSIDERING AS THE FIGURE FOR THEIR UPCOMING JOINT FORECAST. DISAPPOINTING (BUT POSSIBLY SUSPECT) ORDERS DATA AND BUSINESS SURVEY PESSIMISM CONTRIBUTE TO THESE VIEWS. FEBRUARY DATA MAY BE DECISIVE IN SETTling OPINIONS ON THE CYCLICAL TRACK AHEAD. THE CHANCELLOR IS CONFIDENT THAT THE DATA, OVER THE NEXT FEW MONTHS, WILL SHOW A GOOD PERFORMANCE AND STRENGTHEN GERMANY'S POSITION AT THE LONDON SUMMIT. END SUMMARY.

2. THE OECD WILL MODIFY UPWARDS THEIR FORMER FORECAST OF 3.5 PERCENT REAL GNP GROWTH FOR 1977. THIS WAS WHAT WE WERE TOLD BY AN ECONOMICS MINISTRY OFFICIAL WHO WAS TAKING CARE OF OECD SECRETARIAT STAFF MEMBERS VISITING BONN IN CONNECTION WITH THE PREPARATION OF THE OECD'S ANNUAL REVIEW OF THE GERMAN ECONOMY (EDRC). OUR CONTACT SAID THAT THE OECD STAFFERS HAD NOT YET QUANTIFIED THEIR REVISION BUT THAT IT WOULD BE "SUBSTANTIAL." IN THE CONTEXT, THIS COULD BE INTERPRETED TO BE AS LITTLE (OR AS MUCH) AS ONE HALF OF A PERCENTAGE POINT -- I.E., AN UPPING TO 4 PERCENT FOR THE YEAR. IT WAS NOT MADE CLEAR WHETHER THE DISAPPOINTING JANUARY NEW ORDERS DATA (SEE REFTel) HAD BEEN FACTORED INTO THE FORMULATION OF THEIR REVISED VIEW OF THE FRG OUTLOOK.

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3. ON THE OTHER HAND, THE CHIEF SHORT-TERM FORECASTER IN THE ECONOMICS MINISTRY (HEYNE) OBSERVED TO US THAT WHILE FOR THE MOMENT THE GOVERNMENT WAS STICKING WITH ITS 5 PERCENT REAL GNP GROWTH PREDICTION, THE RISKS WERE NOW PERCEIVED TO LIE DEFINITELY MORE HEAVILY ON THE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 05832

DOWNSIDE THAN WAS THE CASE EARLIER. (THIS VIEW CAME
FOLLOWING THE JANUARY NEW ORDERS DOWNTURN.) HE SAID
THAT THE FRG PLANNED TO MAKE A FULL-FLEDGED NEW FORECAST
NEXT MONTH -- PRIOR TO THE SCHEDULED MAY 17 OECD/EDRC
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MEETING.

4. WE HAVE JUST BEEN TOLD BY AN INFORMED PARTICIPANT
(FROM IFO) THAT THE SPRING JOINT FORECAST OF THE FIVE
MAJOR ECONOMIC RESEARCH INSTITUTES WILL REVISE RADICALLY
DOWNWARD THEIR LAST FORECAST OF 5.5 PERCENT 1977 REAL
GNP GROWTH. HIS "TIP" IS THAT IT WILL BE 4 PERCENT,
OR MAYBE SLIGHTLY LESS. THE INSTITUTES WILL GATHER
TOGETHER APRIL 18-29 IN HAMBURG TO PRODUCE THEIR JOINT
FORECAST, THE RESULTS OF WHICH WILL BE MADE
PUBLIC THE FIRST WEEK IN MAY. WE WILL BE VISITING A

COUPLE OF INSTITUTES NEXT WEEK AND WILL REPORT FURTHER ON THIS RATHER STRIKING DEVELOPMENT.

5. A BDI (INDUSTRIAL ASSOCIATION AKIN TO THE NAM) ECONOMIST TOLD US HE SENSES A DOWNWARD ADJUSTMENT OF GNP FORECASTS FOR 1977 ON THE PART OF MANY OBSERVERS. WHEREAS EARLIER THE 3-4 PERCENT REAL GNP GROWTH PREDICTORS (THE ESSEN INSTITUTE BEING THE FOREMOST OF THESE) FORMED A SMALL MINORITY IN THE FRG AND THOSE AT 5 OR MORE PERCENT REPRESENTED THE MAJORITY, THERE HAS BEEN A DEFINITE TREND OF OPINION OF THE LATTER TO GET CLOSER TO THE ESSEN (AND THE EARLIER OECD) VIEW. THE MOST RECENT INTERNAL BDI SURVEY OF INDUSTRY REFLECTED A MARKEDLY PESSIMISTIC VIEW OF WHAT BUSINESSMEN EXPECTED FOR FUTURE CYCLICAL DEVELOPMENTS, ACCORDING TO OUR CONTACT (WHO SAID HE HAS BELONGED TO THE 3 PERCENT CLUB FOR SOME TIME).

6. THE IFO "BUSINESS CLIMATE" SURVEY JUST PUBLISHED SHOWS A FURTHER DETERIORATION IN THIS COMPOSITE LEADING (SIX-MONTH) INDICATOR. THE FEBRUARY 188.5 INDEX NUMBER WAS A GOOD DEAL DOWN FROM THE JANUARY 192.9 FIGURE, AND PRESENTLY STANDS AT ITS LOWEST POINT SINCE OCTOBER 1975. UNDOUBTEDLY THIS SURVEY RESULT, UPON WHICH IFO RELIES HEAVILY, ALONG WITH THE POOR ORDERS DATA INFLUENCES ITS CONFIDENTIAL

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PESSIMISTIC VIEWS. THE ORDER BACKLOG, ACCORDING TO IFO, NOW STANDS AT 2.1 MONTHS -- PRACTICALLY THE RECESSION LEVEL.

7. CHANCELLOR SCHMIDT IN A MARCH 31 PRESS CONFERENCE, WHEN QUESTIONED ON THE OUTLOOK, REFERRED TO THE GOVERNMENT'S FORECAST OF AROUND 5 PERCENT REAL GNP GROWTH IN 1977, SLIGHTLY BELOW 4 PERCENT INFLATION AND JUST UNDER 4 PERCENT AVERAGE UNEMPLOYMENT. HE SAID THAT THE DATA COMING OUT IN THE NEXT FEW MONTHS WILL CLARIFY THE SITUATION AND THAT HE IS CONFIDENT THEY WILL SHOW A GOOD PERFORMANCE. AT THE LONDON SUMMIT HE SAID THAT THE GERMAN EFFORTS TO SUPPORT THE WORLD ECONOMIC RECOVERY WILL BE FAVORABLY RECOGNIZED, WHEREUPON HE RECITED THE NOW-FAMILIAR ARGUMENTATION ON THE FRG'S IMPORT GROWTH, CURRENT ACCOUNT PERFORMANCE, ETC. (SEE BONN 4894.)

8. COMMENT -- THE FEBRUARY NEW ORDERS AND INDUSTRIAL PRODUCTION DATA, WHICH SHOULD BE OUT IN A WEEK OR TWO, WILL SURELY BE VERY CLOSELY WATCHED, ESPECIALLY GIVEN THE SHARP DOWNTURN IN JANUARY INDICATED BY A STATISTICAL INDICATOR WHOSE ACCURACY IS SOMEWHAT

QUESTIONABLE (SEE BONN 5052). IF THE IFO SURVEY DATA
(PARA 6) ARE BORNE OUT AND THE OFFICIAL FEBRUARY DATA
TURNS SIGNIFICANTLY DOWN, THEN THE BEARS WILL CLEARLY
HAVE A GOOD CASE AND THE STATUS QUO POLICY 5 PERCENTERS
WILL BE HARDER PUT TO DEFEND THEIR POSITION. IF ON
THE OTHER HAND FEBRUARY INDUSTRIAL PRODUCTION AND
ORDERS ARE ENCOURAGING, SOME OF THE PRESENT PESSIMISM
MAY EVAPORATE AND THE 5 PERCENTERS WILL BE
RE-CONFIRMED IN THEIR VIEW.
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